

# Under the Big Top: Managing Change, Managing To Change

The strategic context for mortgage brokerage in Alberta over the coming decades.

A summary of the major conclusions from a presentation to the  
**Alberta Mortgage Brokers Association**  
Annual Conference  
September 10, 2010

Prepared by David Baxter and Ryan Berlin  
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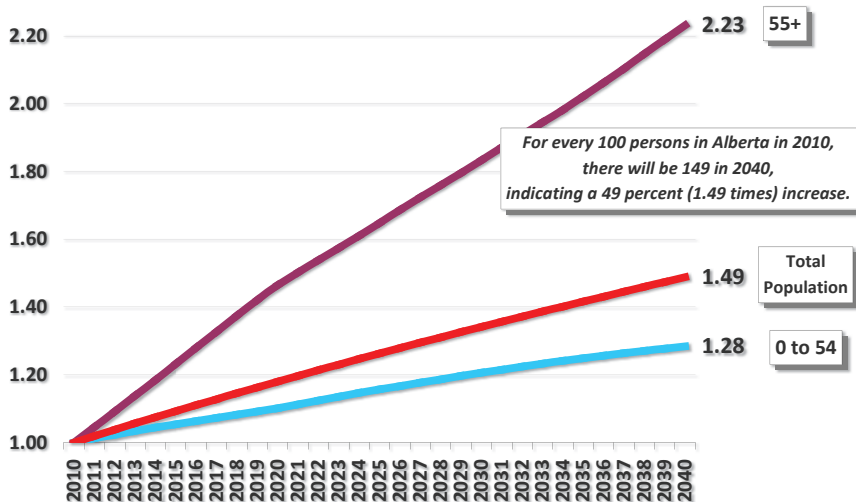
This brief document presents a summary of the conclusions concerning the future level of market activity in the Alberta residential mortgage market; that is, the market for mortgages on owner-occupied property. These conclusions are based on population projections for Alberta published by Urban Futures and combined with data gathered from the 2001 and 2006 Censuses of Canada, CAAMP, and through discussions with lenders and brokers.

## Demographic Change

The population of Alberta is projected to increase by 49 percent over the next three decades, growing from its current 3.7 million residents to 5.5 million by 2040. As is the case for most of Canada, Alberta's

Figure 1

**The Future of Alberta's Population**  
2010 - 2040 (2010=1.00)



current age profile demonstrates a significant concentration of people in the 45 to 64 age group (representing 26 percent of the population in Alberta and 29 percent in the rest of Canada), reflecting the post-World War II baby boom cohort born between 1946 and 1965. In contrast to the rest of Canada, Alberta's age profile also demonstrates a significant concentration in the 20 to 39 age group (accounting for 31 percent of its population compared to 27 percent in the rest of Canada), with this cohort reflecting Alberta's destination status for young labour force migrants. Given trends in migration, and in birth and death rates, the aging of the baby boom cohort will mean an aging of the entire population. This aging can be illustrated by charting the growth of the province's 55-plus

population (which will increase by 123 percent over the next three decades) versus the growth of the under-55 population (which will increase by a more modest 28 percent).<sup>1</sup> For every 100 people aged 55-plus today there will be 223 people in this age group in 2040; for every 100 under the age of 55, there will be 128.

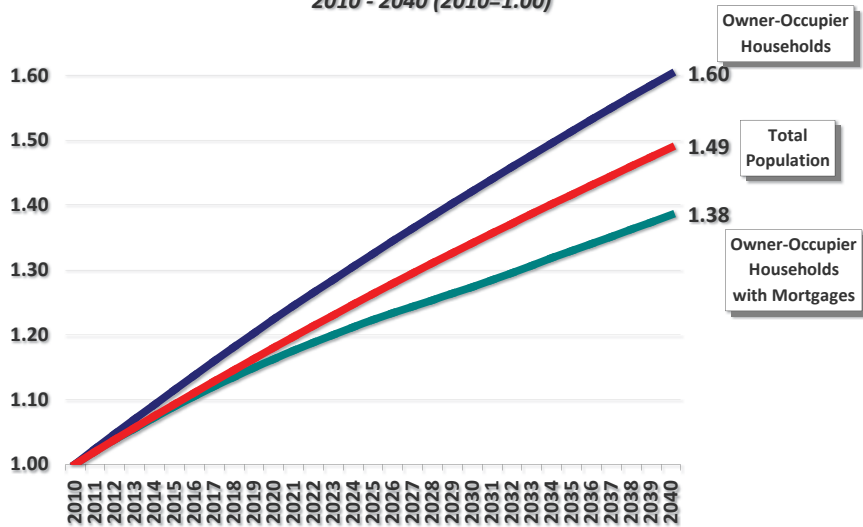
<sup>1</sup> Population projections are prepared by single years of age; these are presented here in only two age groups to summarize the general aging that Alberta's population will experience.

**Total Number of Residential Mortgages on Owner-Occupied Housing**

The significant growth of the older population in Alberta bodes well for owner-occupied housing markets, as the propensity of a person to be a homeowner increases with age. Applying the percentage of people in an age group who are the maintainers of owner-occupier households (as measured by the 2006 Census) to the projected change in the number of people in each age group results in a projection that the stock of owner-occupied houses in Alberta will increase by 60 percent over the next three decades, from its current level of just over one million to 1.60 million in 2040.

Figure 2

**The Future of Alberta's Residential Mortgage Market (Owner-Occupancy)**  
2010 - 2040 (2010=1.00)



The slower growth in the under-55 population will mean slower growth in the number of owner-occupied dwellings with mortgages, as the propensity to be an owner-occupier with a mortgage is highest in the young-adult stage of the lifecycle, declining with age thereafter as households pay down, and then pay off, their mortgages. Applying the age

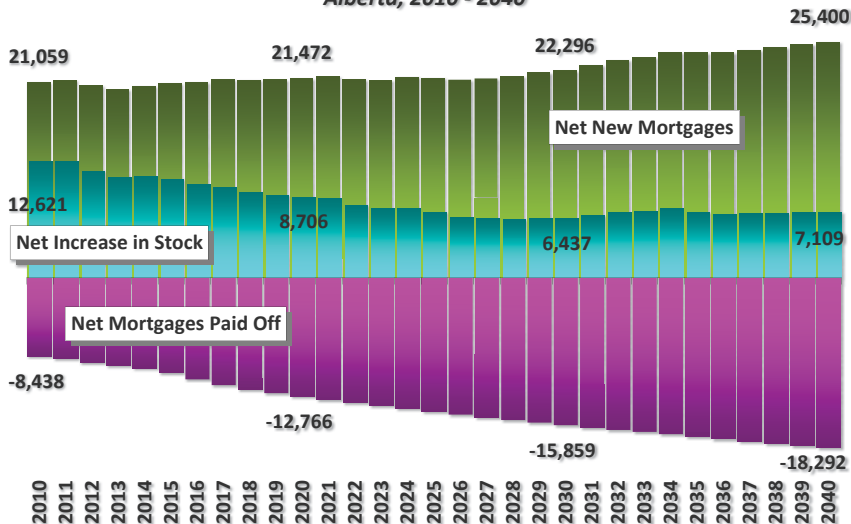
specific propensity of people to be owner-occupiers with mortgages (again, as measured by the 2006 Census) to the population projection provides an estimate of the number of owner-occupier households with mortgages that there will be in the future—a number that will grow by 38 percent over the next three decades, representing a net increase of 245,000 additional mortgaged properties (from 640,000 today to 885,000 in 2040).

Reflecting the underlying demographic change that Alberta will experience in the coming years will be the annual increases in the number of owner-occupied dwellings with mortgages. Most of the growth is projected to occur in the near-term, with annual additions of 12,600 mortgaged properties being realized in the next couple of years, declining to approximately 6,400 per year by 2030, and then rebounding slightly to approximately 7,000 per year by 2040.

**Net New Residential Mortgages on Owner-Occupied Housing**

Figure 3

**Number of Owner-Occupied Homes with Mortgages**  
Alberta, 2010 - 2040



This slowing growth in the total number of mortgaged housing units should not, on its own, be seen as being descriptive of the residential mortgage market, as it conceals a significant level of mortgage market activity. As would be anticipated with an aging population, the number of mortgages paid off each year will increase both steadily and significantly over the next three decades, increasing from the 8,400 range over the next year through 12,800 in 2020 and 15,900 in 2030 to reach 18,300 in 2040. With the

total number of mortgaged properties continuing to grow throughout this period, the net number of new mortgages will also increase, from 21,100 over the next year to 25,400 by 2040, representing 20 percent growth in the annual number of new mortgages.

### Renewal of Residential Mortgages on Owner-Occupied Housing

The practice of partial amortization of mortgages in Canada, with payments based on amortization periods generally in the 25 to 30 year range but contractual terms that generally span one, three, or five years,

means that there is a great deal of renewal and refinancing activity in the residential mortgage market. Available data on new and renewal loans from CAAMP, supplemented by information provided by lenders and brokers, shows three distinct groupings by length of contractual term, with the major clustering at five years, followed by lesser groupings at three years and one year.

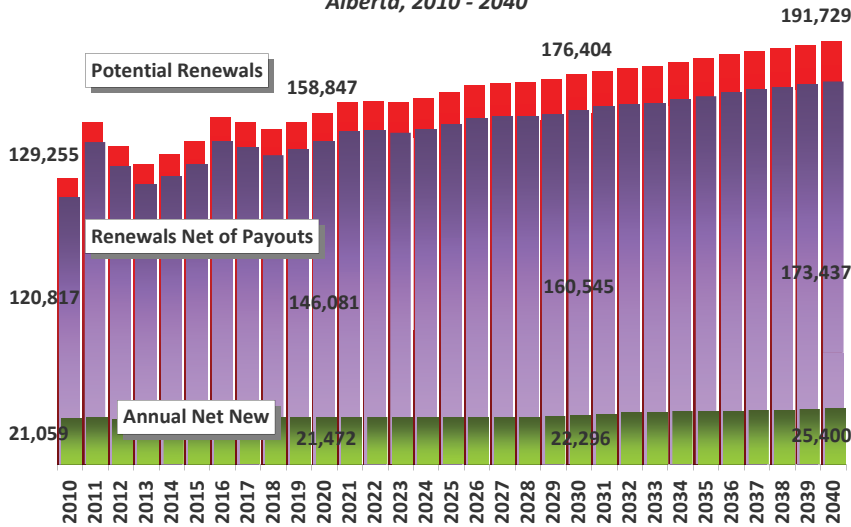
Assuming this current term preference pattern prevails in the future, the volume of renewals can be projected. Such a projection recognizes that because one mortgage may be renewed ten or more times during its amortization period, annual renewal activity is much greater than loan initiation activity, even when adjusted for loan payout as the homeowner becomes mortgage-free. For

example, given current term preferences, annual loan renewals net of payouts will increase from 121,000 estimated for 2010 (six times the 21,000 new loans) through to 191,000 by 2040, with this 40 percent increase in the annual number of renewals reflecting the growth in the size of the stock of owner-occupied households with mortgages in Alberta.

Figure 4

#### Number of Owner-Occupied Homes with Mortgages

*Alberta, 2010 - 2040*



### Conclusions

These projections reflect the long-run direction of the residential mortgage market in Alberta, with short-term economic fluctuations resulting in actual levels of annual activity oscillating around these long-term trends. That being said, two factors suggest that these projections should be regarded as conservative.

1. The use of constant age specific propensities of owner-occupiers to have mortgages based on the 2006 Census does not reflect the trend, observed between the 2001 and 2006 Census enumerations, of an increasing propensity, particularly in the 30-plus age group, for people to have mortgages on their homes. With increasing life expectancies, increasing working lives, and increasing labour force participation, it is reasonable to anticipate that the trend of increasing propensities to have a mortgage on a home will continue, and hence that annual loan initiation and renewal will be somewhat above the projected level.
2. Renewal activity in the future is dependent on the choices people make with respect to contractual term, something that is affected by their individual risk preferences and the rates lenders charge for mortgages with different term lengths. All other things equal, in a very low interest rate environment—such as the one that prevails today—borrowers seek longer-term contracts to ensure low payment costs in an uncertain future.

Spreads between rates for 5-year, 3-year and 1-year contractual terms currently near record historical levels. As rates rise, interest rate spreads narrow to the point that in very high interest rate environments, they disappear, leaving no difference in rates by contractual term, something that on the margin pushes borrowers to shorter contractual terms in anticipation of future lower rates. As the current low rate environment will inevitably end, term lengths will shorten, and hence annual renewal volumes will likely be somewhat above the levels projected here using prevailing term preferences.